

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS

81-7500

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

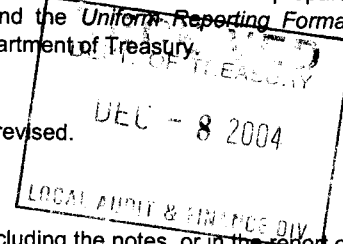
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LOCH ALPINE SANITARY AUTHORITY	County WASHTENAW
Audit Date 6/30/04	Opinion Date 11/12/04	Date Accountant Report Submitted to State: 12/7/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) PFEFFER, HANNIFORD & PALKA, P.C.			
Street Address 225 E. GRAND RIVER, STE. 104		City BRIGHTON	State MI
Accountant Signature <i>David P. Palka</i>		ZIP 48116	Date 12/7/04

AUTHORITY OFFICIALS

Chairman - Neil Gerl
Vice Chairman - Paul Kleinschmidt
Secretary - Gay Konschuh

BOARD OF TRUSTEES

Wana Baldus
E. Spaulding Clark
Dean Fisher
Neil Gerl
William Ince
Paul Kleinschmidt
Gay Konschuh

AUTHORITY ATTORNEY

Reading, Etter & Lillich

AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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November 12, 2004

Board of Trustees
Loch Alpine Sanitary Authority of
Webster and Scio Townships
827 North Zeeb Road
Ann Arbor, Michigan 48103

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Loch Alpine Sanitary Authority of Webster and Scio Townships as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities of the Loch Alpine Sanitary Authority of Webster and Scio Townships, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7, the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2004.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Loch Alpine Sanitary Authority of Webster and Scio Townships' basic financial statements. The supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states in all material respects in relation to the basic financial statements as a whole.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND ANALYSIS

Management Discussion and Analysis June 30, 2004

Within this section of the Loch Alpine Sanitary Authority of Webster and Scio Townships' financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water and sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Other information

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$2,215,978. This is a \$76,966 increase over last year's net assets of \$2,139,012.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>6/30/2004</u>	<u>6/30/2003</u>
Current and other assets	\$ 1,118,042	\$ 1,143,551
Capital assets, net	<u>1,114,595</u>	<u>1,064,447</u>
Total assets	<u>2,232,637</u>	<u>2,207,998</u>
Accounts payable	9,559	61,886
Deposits	<u>7,100</u>	<u>7,100</u>
Total liabilities	<u>16,659</u>	<u>68,986</u>
Net assets:		
Invested in capital assets, net of related debt	1,114,595	1,064,447
Unrestricted	<u>1,101,383</u>	<u>1,074,565</u>
Total net assets	<u>\$ 2,215,978</u>	<u>\$ 2,139,012</u>

Revenues from operations declined 15%, as summertime usage declined due to an unusually cool and rainy summer. Annual consumption decreased from 59.59 million gallons for fiscal year ended June 30, 2003, to 54.87 million gallons, an 8% decrease. Operating expenses increased slightly over the prior year, as general repairs and maintenance were performed on the system

As a result, net income decreased from \$189,792 for the year ended June 30, 2003 to \$76,966 for the year ended June 30, 2004. Additionally, during the current year, the iron removal plant was completed at a cost of \$643,423, which was funded from Authority savings and investment accounts.

Summary of Changes in Net Assets

	<u>6/30/2004</u>	<u>6/30/2003</u>
Operating revenues	<u>\$ 430,952</u>	<u>\$ 510,817</u>
Operating expenses		
General	201,228	195,041
Sewer	95,710	72,038
Water	69,193	74,438
Total operating expenses	<u>366,131</u>	<u>341,517</u>
Operating income	64,821	169,300
Non-operating revenues, net	<u>12,145</u>	<u>20,492</u>
Net income	76,966	189,792
Beginning net assets	<u>2,139,012</u>	<u>1,949,220</u>
Ending net assets	<u><u>\$ 2,215,978</u></u>	<u><u>\$ 2,139,012</u></u>

Capital and Debt Administration

As of June 30, 2004, the Authority does not have any outstanding long-term debt in the form of bonds or loans payable.

The Authority recently completed the rust removal plant financed entirely with funds provided from on-going operations. The total cost of the plant was \$643,423 with the entire cost financed by operating surpluses.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to remain constant to slowly rising, with two new users added during the fiscal year. Nearly one-half of the authority's net assets are in cash or marketable securities, this despite funding the construction of the rust removal plant. Further, the Authority is unencumbered by debt.

It is not expected that the decline in revenue experienced in the fiscal year June 30, 2004 will continue in future years. Rather, it is anticipated that revenue will return to previous levels and costs will be maintained.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the Authority and its customers. During this fiscal year, the Authority's electrical and heating costs increased by nearly 20% from the prior year. If such trends continue, these costs may be passed on to customers, who are also enduring higher energy costs.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 827 North Zeeb Road, Ann Arbor, Michigan 48103.

BASIC
FINANCIAL
STATEMENTS

LOCH ALPINE SANITARY AUTHORITY OF WEBSTER AND SCIO TOWNSHIPS
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 954,971
Accounts receivable	136,058
Prepaid expenses	<u>27,013</u>

Total current assets \$ 1,118,042

CAPITAL ASSETS

Land	23,500
Office equipment	8,743
Equipment	149,271
Water and sewer system	903,158
Iron removal plant	<u>643,423</u>
	1,728,095
Less accumulated depreciation	<u>(613,500)</u>

Capital assets, net 1,114,595

Total assets 2,232,637

LIABILITIES

CURRENT LIABILITIES

Account payable	\$ 9,559
Deposits	<u>7,100</u>

Total liabilities \$ 16,659

NET ASSETS

NET ASSETS

Invested in capital assets	1,114,595
Unrestricted	<u>1,101,383</u>

Total net assets \$ 2,215,978

The notes are an integral part of the financial statements.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

OPERATING REVENUES		
Water and sewer billings	\$	430,702
Other charges for services		<u>250</u>
Total operating revenues	\$	430,952
OPERATING EXPENSES		
GENERAL		
Management services	\$	132,000
Administration expenses		7,246
Office supplies		456
Printing and advertising		650
Legal fees		1,671
Postage and freight		923
Audit fees		4,975
Accounting services		13,560
Insurance		25,370
Repairs and maintenance		9,208
Telephone		4,392
Utilities		704
Miscellaneous		<u>73</u>
SEWER		
Repairs and maintenance		34,330
Supplies		15,608
Utilities		6,823
Depreciation		29,528
Miscellaneous		2,605
Sludge removal		<u>6,816</u>
WATER		
Repairs and maintenance		24,075
Consultant fees		180
Utilities		8,916
Depreciation		28,306
Supplies		6,747
Miscellaneous		<u>969</u>
Total operating expenses		<u>366,131</u>
Operating income		64,821
NON-OPERATING REVENUES		
Interest income		<u>12,145</u>
Net income		76,966
NET ASSETS, JULY 1, 2003		<u>2,139,012</u>
NET ASSETS, JUNE 30, 2004	\$	<u>2,215,978</u>

The notes are an integral part of the financial statements.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 449,638
Payments to vendors	<u>(367,669)</u>

Net cash from operating activities \$ 81,969

CASH FLOWS FROM (USED IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Additions to system (107,982)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from operating 12,145

Net (decrease) in cash and cash equivalents (13,868)

CASH AND CASH EQUIVALENTS AT JULY 1, 2003 968,839

CASH AND CASH EQUIVALENTS AT JUNE 30, 2004 \$ 954,971

RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income	\$ 64,821
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation expense	57,834
Changes in assets and liabilities	
Receivables, net	18,686
Prepaid expenses	(7,045)
Accounts and other payables	<u>(52,327)</u>

Net cash provided by operating activities \$ 81,969

The notes are an integral part of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ENTITY - The Authority was formed by Webster and Scio Townships in May 1957 under Act No. 233 of the Public Acts of 1955. The purpose of the Authority is to acquire, own, extend, improve and operate a sewage disposal system and a water supply system.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 40 years for equipment and 5 to 40 years for buildings, structures, and improvements.

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES - continued

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM, AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No bonds were outstanding or issued during the year ended June 30, 2004.

H. INCOME TAXES

As government agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - BUDGETARY DATA

The Authority follows these procedures in establishing its budgetary data:

1. The Authority prepares the annual operating budget and submits copies to the Webster and Scio Township Boards.
2. Public hearings are conducted to obtain Authority customers' comments.
3. The budget is legally adopted by approval of the members of the Authority's board.
4. Rate increases must be approved by the members of the Authority's board.

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority. The Authority maintains an imprest petty cash of \$100.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>854,871</u>	<u>852,422</u>
Total deposits	<u>\$ 954,871</u>	<u>\$ 952,422</u>

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to the Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year. Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following summarizes beginning and ending cash and cash equivalents:

	<u>JULY 1, 2003</u>	<u>JUNE 30, 2004</u>
Current assets		
Cash	\$ 764,076	\$ 775,807
Reserved current		
Cash and cash equivalents	<u>204,763</u>	<u>179,164</u>
Total cash and cash equivalents	<u>\$ 968,839</u>	<u>\$ 954,971</u>
Reserved cash at beginning of year		\$ 204,763
Current year capital acquisitions		(107,982)
Reserved utility billing		<u>82,383</u>
Reserved cash at end of year		<u>\$ 179,164</u>

NOTE 6 - CAPITAL ASSETS

	<u>Balance 7/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>
LAND	\$ 23,500	\$	\$	\$ 23,500
OFFICE EQUIPMENT	8,743			8,743
EQUIPMENT	141,620	12,536	4,885	149,271
WATER AND SEWER SYSTEM	903,158			903,158
IRON REMOVAL PLANT		<u>643,423</u>		<u>643,423</u>
Totals	<u>\$ 1,077,021</u>	<u>\$ 655,959</u>	<u>\$ 4,885</u>	<u>\$ 1,728,095</u>
ACCUMULATED DEPRECIATION				
Water and sewer system	<u>\$ 560,551</u>	<u>\$ 57,834</u>	<u>\$ 4,885</u>	<u>\$ 613,500</u>
CONSTRUCTION IN PROGRESS	<u>\$ 547,977</u>	<u>\$ 95,446</u>	<u>\$ 643,423</u>	<u>\$</u>

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
NOTES OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 6 - CAPITAL ASSETS - continued

Depreciation is computed using the straight line method. Useful lives of the proprietary assets are as follows:

1. Buildings	40 years
2. Machinery and equipment	5 - 10 years
3. Office equipment	5 - 10 years
4. Services - water & sewer	5 - 10 years
5. Water Tower	40 years

NOTE 7 - CONTINGENCIES

The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 9 - SEWER BILLINGS

The system currently has 532 users that are billed quarterly for sewer service. Users are billed a minimum charge of \$46.64 per quarter for service.

Operation and maintenance	\$ 7.64
Reserve for debt service/ capital replacement	<u>39.00</u>
Total	<u>\$ 46.64</u>

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30 2004

NOTE 10 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$ 430,952
Depreciation	57,834
Total assets	2,232,637
Total fund equity	2,215,978
Net income	76,966

NOTE 11 - IMPLEMENTATION OF GASB STATEMENT NO. 34

The Authority has implemented the standards required by GASB Statement No. 34, for the year ended June 30, 2004. All required statements and disclosures have been included in the financial statements.

SUPPLEMENTARY
INFORMATION

LOCH ALPINE SANITARY AUTHORITY
OF WEBSTER AND SCIO TOWNSHIPS
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES & RECEIPTS			
Water and sewer billings	\$ 423,700	\$ 430,702	\$ 7,002
Interest earned	12,000	12,145	145
Other charges for services	<u>250</u>	<u>250</u>	
Total revenues and receipts	<u>\$ 435,950</u>	<u>\$ 443,097</u>	<u>\$ 7,147</u>
EXPENSES AND DISBURSEMENTS			
Legal fees	\$ 7,500	\$ 1,671	\$ 5,829
Administration fees	8,500	7,246	1,254
Audit fees	5,000	4,975	25
Consultant fees	12,000	180	11,820
Office supplies	850	456	394
Management services	132,000	132,000	
Water supplies	12,000	6,747	5,253
Postage and freight	1,300	923	377
Professional fees	15,000	13,560	1,440
Sewer supplies	18,000	15,609	2,391
Insurance	33,000	25,370	7,630
Sludge removal	7,500	6,816	684
Utilities	24,250	20,835	3,415
Grounds maintenance	10,000	6,785	3,215
Repairs and maintenance - building	6,000	2,423	3,577
Repairs and maintenance - water	48,000	24,075	23,925
Repairs and maintenance - sewer	40,000	34,330	5,670
Miscellaneous	7,200	3,646	3,554
Printing and advertising	700	650	50
Depreciation expense	<u>77,000</u>	<u>57,834</u>	<u>19,166</u>
Total expenses and disbursements	<u>\$ 465,800</u>	<u>\$ 366,131</u>	<u>\$ 99,669</u>

This schedule is prepared on a budgetary basis for the operating accounts of the enterprise fund and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.

LOCH ALPINE SANITARY AUTHORITY OF
WEBSTER AND SCIO TOWNSHIPS

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED JUNE 30, 2004

November 12, 2004

Board of Trustees
Loch Alpine Sanitary Authority of Webster and Scio Townships
827 North Zeeb Road
Ann Arbor, Michigan 48103

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of Loch Alpine Sanitary Authority of Webster and Scio Townships for the year ended June 30, 2004, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of instances in which there are opportunities to strengthen internal controls and operating efficiency. These instances are as follows:

1. COMMENT

There is a lack of segregation of duties in the accounting system. One person does the receipting, depositing, disbursing and posting of all original books of entry.

RECOMMENDATION

The Authority should consider the cost/benefit ratio of segregating duties.

2. COMMENT

Deposits of \$7,100 were unchanged from the year before.

RECOMMENDATION

This should be researched and money refunded to customers.

This letter does not affect our report dated November 12, 2004 on the financial statements of Loch Alpine Sanitary Authority of Webster and Scio Townships.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various Authority personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of Loch Alpine Sanitary Authority of Webster and Scio Townships and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants